

Agenda Item: 7
Meeting Dates: September 9, 2004

CALIFORNIA BAY-DELTA PUBLIC ADVISORY COMMITTEE

10-YEAR FINANCE PLAN

Summary: California Bay-Delta Authority staff will provide an update on the development of the 10-Year Finance Plan.

Recommended Action: This is an informational item only. No action will be taken.

Background

The California Bay-Delta Authority (Authority), with the recommendation and support of the Bay-Delta Public Advisory Committee (BDPAC), has directed staff to develop a specific 10-Year Finance Plan for the CALFED Bay-Delta Program. Authority staff, relying on the foundational information in the Draft Finance Options Report, and extensive stakeholder and agency input, intends to present a final 10-Year Finance Plan to the Authority at its October meeting. The 10-Year Finance Plan Schedule and Process is summarized in Attachment 1. Information gained through the 10-Year Finance Plan process will be incorporated into the Final Finance Options Report due to come before the Authority and BDPAC at their joint December meeting.

The 10-Year Finance Plan will include the following for each program element:

- Program Principles and Priorities
- Reasonable funding targets
- Available funding to meet the targets
- Unmet Needs/Funding gaps
- Finance Strategy – finance tools and funding levels to fill the gaps
- Strategy for evaluation and program review based on new information

A key part of developing a finance plan is to describe the program objectives and activities, funding needs/targets, and the beneficiaries for each program or projects before discussing specific finance strategies. At the BDPAC meeting, the focus of discussions will be the draft issues papers that are being developed for each program element.

Authority staff is currently meeting with BDPAC subcommittees, stakeholders, and State and Federal agencies to develop a draft issues paper for each program element. A public workshop was scheduled for August but was merged into a BDPAC discussion instead to allow for maximum stakeholder and public participation. A public workshop may be scheduled for September, if necessary, to facilitate additional public and stakeholder involvement. Staff is in the process of framing the finance issues associated with each program element in an attempt to understand differences, and to the extent possible, reach agreement. Draft issues papers for each program element will be provided to BDPAC in a supplemental mailing prior to the upcoming meeting.

List of Attachments

Attachment 1 – 10-Year Finance Plan; Proposed Schedule, Process and Work Products
Attachment 2 – Letter from CVP Water Association dated 8-10-04
Attachment 3 – Letter from Santa Clara Valley Water District dated 8-11-04

Contact

Kate Williams Hansel
Assistant Director for Finance and Policy

Phone: (916) 445-0143

**CALFED Bay-Delta Program
10-Year Finance Plan
Proposed Schedule, Process and Work Products
August 2004**

Based on direction from the California Bay-Delta Authority (Authority) and the Bay-Delta Public Advisory Committee (BDPAC) and consistent with advice given by the Finance Plan Independent Review Panel, Authority staff has started to process of working with stakeholders and agencies to develop a 10-year finance plan for the CALFED Program. The proposed Finance Plan, which will be submitted to the Authority in October 2004 will be: (1) based on likely program actions over the next 10 years; (2) informed by agency and stakeholder views and information; and, (3) capable of delivering credible and durable financing mechanisms. The proposed strategy for engaging this issue over the next four months is detailed below. This approach is intended to be responsive to previous stakeholder and agency comments.

Key Meetings, Schedule and Expected Work Products

Below is a synopsis of the key meetings, schedule and expected work products for the next several months. The steps called out below are intended to satisfy two needs: (1) ensure stakeholder and agency representatives are partners in the development of a 10-year plan; and (2) ensure a proposed plan is developed in time to meet fall 2004 budgetary deadlines.

Initial funding targets and unmet funding needs –Draft information will be prepared by Program Element and task including: proposed annual funding targets for a 10-year period, identification of available funding and remaining unmet needs, and preliminary finance strategies that describe the type of finance tools likely to support each Element. (Note: These documents are expected to evolve into the eventual 10-year finance plan.)

- ***June BDA Meeting*** -- Present summary of expected cost estimates, available funding and unmet needs
- ***July 8th BDPAC Meeting*** -- Present updated funding targets and available funding, describe process and schedule, and review preliminary finance strategies as presented at BDA in June.
- ***August 11th & 12th BDA Meeting*** -- Present revised funding targets, discuss preliminary finance strategies, review process and schedule, and highlight issues.
- ***August thru September*** -- Continue to refine the funding targets as part of the development of the Finance Plan.

Finance Plan – A 1-2 page description will be developed for each Program Element that lays out: likely activities and associated funding targets; current funding available; likely funding gaps, key issues and options for cost-sharing arrangements to cover the unmet funding needs.

- ***August thru September*** – Meet with agencies, stakeholders and public interests to identify funding issues and to the extent possible reach agreement on cost allocations.

- **September 8-9 BDPAC Meeting** -- Present revised funding targets, unmet needs, funding issues for 11 Program Elements. Discuss key issues.
- **September** – Possible Public Finance meeting/workshop focused on funding targets and cost allocations in preparation for October BDA meeting.
- **October 14th BDA Meeting** -- Present 10-Year Finance Plan. As necessary, discuss remaining gaps/issues.
- **October thru November** – As needed, continue discussion on funding targets and cost allocations if not resolved before the October BDA meeting.
- **November** - For any remaining issues not resolved at the Oct BDA meeting, a November BDA meeting will be held. Final submittal to the Dept of Finance will be no later than mid-November.

Stakeholder and Agency Involvement

Below is an outline of the proposed approach for ensuring the above work products are informed by extensive stakeholder and agency involvement, insights and information.

Public Workshops

- BDA staff convene public finance workshops to ensure there are cross-cutting discussions with interested stakeholders to review progress and consider Program-wide integration issues.
- Open attendance; materials posted in advance on web; email reminders to those who demonstrated interest in this topic over the past year
- Seek feedback on evolving Finance Plan; not striving for consensus at these meetings

Ad Hoc Involvement

Support and participate in work groups that are interested in discussing the material in greater detail to ensure stakeholder/agency understanding, refine stakeholder/agency input into BDA deliberations and foster a bottoms-up discussion. It is expected that these work groups can and should take on different formats. For example:

- Stakeholder-driven groups such as water user discussions
- Briefings and discussions with standing BDPAC Subcommittees
- BDA initiated discussions with groups such as environmental water caucus.
- BDA convened meetings with agency and stakeholders focused on specific program elements and issues.

Legislative Budget and Policy Committees

- Committees have expressed an interest in holding interim hearings on CALFED financing. If scheduled, the hearings are likely to be held in September.



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August 10, 2004

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Patrick Wright, Director
California Bay-Delta Authority
650 Capital Mall 5th Floor
Sacramento, CA 95814

Subject: Comments on California Bay-Delta Authority (CBDA) Draft Finance
Options Report dated May 2004.

Dear Director Wright:

The Central Valley Project (CVP) Water Association represents the interests of the 300 agricultural and municipal and industrial districts, agencies and communities that are located in the Central Valley of California (a valley that extends some 450 miles from Redding to Bakersfield) that have contracts for water from the federal CVP. Annually, these contractors use the CVP water to irrigate three million acres of land (one-third of the agriculture in California) and to meet the water needs of one million households. The CVP Water Association works to preserve and protect our members' CVP contractual water supplies and ensure that those water supplies are dependable, of good quality and affordable.

The CVP Water Association would like to thank you for this opportunity to provide comments on the Draft Finance Options Report (Options Report) dated May 2004. It is our understanding the Options Report is being utilized by your staff as a foundation document for the development of a 10-Year Finance Plan and not as a proposed implementation plan. Therefore, our comments focus on the overriding principles contained in the Options Report and do not comment on specific program elements, cost estimates or proposed cost allocation methodologies. We will continue to participate in the development of the 10-Year Finance Plan through our members' representatives.

Comments

- The CVP contractors' overall position is that the Central Valley Project Improvement Act (CVPIA) specifies all of the environmental mitigation requirements for the CVP. The CVP contractors are supportive of the environmental mitigation efforts being proposed by CBDA to the extent they overlap with the CVPIA and as long as the CVP contractors' obligations for environmental mitigation are limited to the annual Restoration Fund payments made in accordance with the CVPIA.

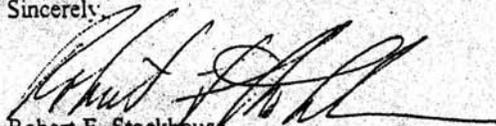
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- The CBDA should participate in the various forums that guide the implementation of CVPIA programs (Restoration Fund Roundtable, etc). However, the CBDA must not usurp the administration of the CVPIA. While it is important and desirous that synergy occurs between the CALFED and CVPIA programs, CVPIA-priorities must take precedence when spending Restoration Fund monies. Furthermore, the utilization of Restoration Fund monies on CALFED programs complementary to CVPIA objectives should not be construed as a continuing source of funding. At the point where CVPIA objectives are reached, or CBDA efforts diverge from those objectives, CBDA access to the Restoration Fund will have to be re-evaluated.
- The CVP contractors are willing to consider contributing funds in addition to Restoration Fund payments under the CVPIA for CALFED programs that provide direct benefits to the CVP that are not related to environmental mitigation, such as increased storage, improved conveyance, water quality improvement, etc. The CVP contractors are willing to work with the CBDA and other stakeholders to determine the appropriate method for allocating the costs of these types of programs when they arise.
- As noted in the Options Report, CBDA needs to develop an accounting system that is capable of tracking program costs in enough detail to support both programmatic reporting requirements and cost allocation reporting requirements. The development of the accounting system should be made a high priority to ensure that program expenditures are appropriately tracked from program inception.
- Within the Ecosystem Restoration Program (ERP), "at risk" species have been defined as "endangered, threatened, or native species in decline". Water users should only be included as beneficiaries for activities that (1) benefit species that are federally listed as either endangered or threatened and (2) address situations where water diversions are a primary impediment to species recovery.
- The baseline timeframe for identifying beneficiaries and contributions of those beneficiaries should be revised to 1992. This starting point reflects the passage of the CVPIA and the significant re-operation of the CVP. Since 1992, CVP contractors have provided direct funding of \$426 million in CVPIA Restoration Fund payments that have been used to fund basin-wide environmental activities. This level of funding is simply too large to ignore and failure to incorporate this spending contribution would result in CVP contractors subsidizing the environmental responsibilities of other stakeholders.
- In addition to the Restoration Fund payments made by the CVP contractors, a substantial amount of CVP water was taken from the CVP contractors without compensation for environmental purposes pursuant to the provisions of the CVPIA. Between mandated Level 2 refuge deliveries of about 463,000 acre-feet (AF) per year (CVPIA Section 3406(d)) and the 800,000 acre-feet provided to the environment pursuant to CVPIA Section 3406(b)(2), CVP contractors have lost approximately 1.3 million AF per year – this is exclusive of the potential impacts of additional Trinity River flows. Over the 12 years since implementation of the CVPIA, the Level 2 refuge and (b)(2) supplies total about 15.6 million AF. Using \$100 per AF as an estimate of the value of this water, this reduction in CVP yield available to the CVP contractors represents approximately \$1.5 billion of water and an ongoing annual "contribution" of some \$130 million. Again, the value of this contribution is simply too large to ignore.
- In addition to Restoration Fund payments, the CVP contractors have been obligated to pay additional costs to cover environmental activities through the rates paid for their CVP water.

These additional costs include those for Suisun Marsh Preservation and various Endangered Species Act and National Environmental Planning Act activities. Since the passage of the CVPLA in 1992, these expenditures have totaled approximately \$81 million.

If you have any questions on the above comments, or if we can provide any additional information, please contact us at (916) 448-1638 or at the address shown above.

Sincerely,



Robert F. Stackhouse
Executive Director, CVP Water Association

Cc: Kirk Rodgers, Regional Director, US Bureau of Reclamation, Mid-Pacific Region
Terry Erlewine, Executive Director, State Water Contractors
David Guy, Executive Director, Northern California Water Association



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August 11, 2004

Patrick Wright, Executive Director
California Bay-Delta Authority
650 Capitol Mall, 5th Floor
Sacramento, CA 95814

Subject: Comments on the May 2004, California Bay-Delta Authority Draft Finance Options Report

Dear Director Wright:

The Santa Clara Valley Water District (District) is the primary water resources agency for Santa Clara County, California. It has the lone distinction of being both a federal water contractor, receiving Central Valley Project (CVP) deliveries through the San Felipe Division Facilities, and a State Water Project (SWP) contractor, receiving water through the South Bay Aqueduct.

The District is very supportive of the efforts of the California Bay-Delta Authority (CBDA) staff, technical team, and the independent panel who all undertook the formidable task of preparing the Draft Finance Options Report (Report) and would like to express appreciation for this opportunity to provide comments. It is our understanding that the Report is to be used as a reference document for future activities, such as the current 10 Year Finance Plan development, but will **not** be used as support for cost estimates nor be precedent setting for future cost allocations and funding options.

Specific Comments:

- The District, as a CVP and a SWP contractor, believes it is imperative that CBDA staff and technical advisors have a thorough understanding of both the State Water Project (SWP) and Central Valley Project (CVP) cost allocation methodologies. Both the SWP and CVP contractors have financial oversight committees that are familiar with cost allocation and funding criteria for the respective Water Projects. These committee representatives must be involved when cost estimates, cost allocations, and funding plans are being developed.

Draft Finance Options Report Comments

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- As a CVP contractor, the District contributes to the Restoration Fund for related environmental mitigation as mandated by the Central Valley Project Improvement Act (CVPIA). While the Report acknowledges the Restoration Fund contributions and the use of these funds to meet CBDA objectives, there is no mention as to how monies paid will be credited to CVP contractors. Such a crediting process is vital and must be evaluated in any future cost allocation / funding scenarios.

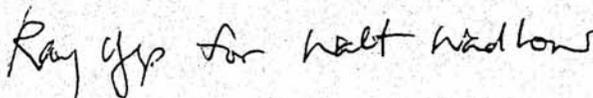
It is imperative that CBDA programs be evaluated in terms of their relationship to CVPIA programs and only CBDA programs which meet the guidelines of CVPIA be funded by Restoration Fund contributions.

- Of major importance to the District is the San Luis Low Point Improvement Project included in the Conveyance Program. Because the cost allocation options in the Report are no longer under consideration and will be replaced during the stakeholder involved process related to the 10 Year Finance Plan, detailed comments on the project will not be made at this time. However, it should be noted that the Report presented a very limited view of the possible benefits and beneficiaries that may be derived from the project, and there was no clear indication of how the current overlying structures of the CVP and SWP would impact funding and the ultimate allocation of costs.
- The District agrees the CBDA must develop an accounting system that will be able to provide accurate cost data for reporting requirements and cost allocation purposes.

The District recognizes the effort that has been put forth by CBDA staff, technical advisors, and other participants in the preparation of the Draft Finance Options Report. This undertaking has been the precursor to a process that can build consensus and partnerships among the various stakeholders.

If you have any questions, please do not hesitate to call.

Sincerely,



Walter L. Wadlow

Chief Operating Officer, Water Utility Enterprise

cc: K. Whitman, J. Maher, J. Maclay, L. Hurley